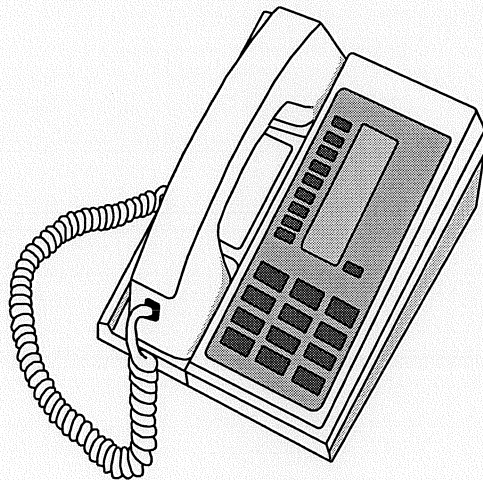


YEAR ENDING 2004

ANNUAL REPORT  
OF  
**Southern Montana Telephone  
Co.**

TELEPHONE UTILITY



TO THE  
PUBLIC SERVICE COMMISSION  
STATE OF MONTANA  
1701 PROSPECT AVENUE  
P.O. BOX 202601  
HELENA, MT 59620-2601

# Telephone Annual Report

## Instructions

### General

1. A Microsoft EXCEL 2000 workbook of the annual report is being provided on computer disk for your convenience. The workbook contains the schedules of the annual report. Each schedule is on the worksheet named that schedule. For example, Schedule 1 is on the sheet titled "Schedule 1". By entering your company name in the cell named "Company" of the first worksheet, the spreadsheet will put your company name on all the worksheets in the workbook. The same is true for inputting the year of the report in the cell named "YEAR". You can "GOTO" the proper cell by using the F5 key and selecting the name of the cell.
2. The workbook contains input sections that are unprotected, and non-input sections that are protected. Cell protection can be disabled or enabled through "TOOLS – PROTECTION – UNPROTECT SHEET" on your toolbar. Formulas and checks are built into most of the templates.
3. Use of the disk is optional. The disk and the report cover shall be returned when the report is filed. There are macros built into the workbook to assist you with the report. An explanation of the macros is on the "Control" worksheet at the front of the workbook. The explanations start at cell A1.
4. All forms must be filled out in permanent ink and be legible. Note: Even if the computer disk is used, a printed version of the report shall be filed. **Please submit one unbound copy of the annual report along with the regular number of annual reports that you submit.** This aids in scanning the report so that it may be published on our web site. The orientation and margins are set up on each individual worksheet and should print on one page. If you elect not to use the disk, please format your reports to fit on one 8.5 by 11 page with the left binding edge (top if landscaped) set at .85, the right edge (bottom if landscaped) set at .4, and the remaining two margins at .5. You may select specific schedules to print – See the worksheet "CONTROL".
5. Unless otherwise indicated, all information required in these schedules shall be from the accounts prescribed in 47 C.F.R. Part 32 and the definitions and instructions therein will apply to this report wherever applicable.
6. Information on financial schedules may be rounded to thousands of dollars for companies with over 5,000 access lines. Companies submitting schedules rounded to thousands should so indicate at the top of the schedule.
7. Where more space is needed or more than one schedule is needed additional schedules may be attached and should be included directly behind the original schedule to which it pertains and be labeled accordingly (for example, Schedule 1A).

8. The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further information as is necessary to make the required schedules not misleading.

9. The following schedules should be filled out with information on a total company basis:

Schedules 1 - 4  
Schedule 10  
Schedules 13 - 17  
Schedule 19  
Schedule 20, Page 1 of 2  
Schedules 33 and 34

All other schedules should be filled out with Montana specific data. Financial schedules should include all amounts originating in Montana or allocated to Montana from other jurisdictions.

10. All companies owned by another company shall attach a corporate structure chart of the holding company.

11. The following schedules are not required to be filled out or submitted by companies with less than 5,000 access lines:

Schedule 6  
Schedules 17 and 18  
Schedule 21

12. Schedules that have no activity during the year or are not applicable to the respondent should be marked as not applicable and submitted with the report.

13. Companies with under 5,000 lines may use summary accounts and should leave lines for subaccounts blank. Summary accounts are noted with an asterisk and subaccounts that are not required are noted with a caret.

14. Companies with over 5,000 lines must complete schedules to all required subaccount detail.

15. FCC Form M sheets may not be substituted in lieu of completing annual report schedules.

16. Common sense must be used when filling out all schedules.

### **Specific Instructions**

#### **Schedules 3 through 9**

1. **Schedules 3, 4, and 9** should include all notes to the financial statements required by the FCC or included in the financial statements issued as audited financial statements. These notes should be included in the report directly behind the schedules and should be labeled appropriately (Schedule 3A, etc.).

2. **Schedule 5** may be omitted for companies doing business only in Montana.
3. **Schedule 6** is not required for companies with under 5,000 lines.
4. **Schedule 7** must be completed by all companies. For companies under 5,000 lines, this schedule may be completed on a total state basis. Any such company completing the form on a total state basis shall indicate this fact clearly on the form.
5. **Schedule 8** - Companies with less than 5,000 lines are not required to fill out the intrastate portion. The regulated rate base must be separated from the deregulated rate base but this may be done on a total state basis. Any company so doing shall clearly indicate this on the form.
6. Only accounts designated on **Schedule 8** may be included in rate base. Only companies who have specifically been authorized in a Commission order to include cash working capital in rate base may fill out line 8 on Schedule 8. Cash working capital must be calculated using the methodology approved in the Commission order. The most recent Commission Order, and Docket, specifying cash working capital shall be noted on the schedule.
7. **Schedule 9** - Instructions to complete are similar to those used for the Statement of Cash Flows in the FCC Form M.

#### **Schedule 10**

1. For the purpose of this schedule, nonofficial companies shall include any company in which the respondent has an ownership interest which does not meet the definition of an affiliated company set out in 47 C.F.R. Section 32.9000. This schedule shall not include telecommunications accounts receivable from other customers.

#### **Schedule 11**

1. All amounts listed in Column f that represent individual items for which the higher of cost or market value was in excess of \$50,000 for companies with under 5,000 lines and in excess of \$100,000 for companies with over 5,000 lines must be fully explained in notes to this schedule. The explanation must include the plant description and location, the original cost, the net book cost, the market value, the value at which it was transferred or the price at which it was sold, and the party to which it was transferred or sold.

#### **Schedule 12**

1. Respondents shall list each item amounting individually to \$100,000 or more and report all others in the aggregate.
2. Amounts in Column f relating to individual items exceeding \$50,000 shall be fully explained.

#### **Schedule 15**

1. Line 1 must be completed by all companies for the most recent calendar year. The retention and price/earnings ratios shall be calculated on a year end basis. Enter the actual year end market price in the "Year Ended" row. If the computer disk is used, enter the year end market price in the "High" column.
2. Lines starting at 9 shall be completed for each of the twelve months of the report year for all companies with over 5,000 access lines. Earnings per share and dividends per share shall be

reported on a quarterly basis and entries shall be made only to the months that end the respective quarters (for example, March, June, September, and December.)

**Schedule 19**

1. All companies are required to submit this form. Companies with more than one plan (for example, both a retirement plan and a deferred savings plan) shall complete a schedule for each plan.
2. Companies with defined benefit plans must complete the entire form using FASB 87 and 132 guidelines.
3. Interest rate percentages shall be listed to two decimal places.

**Schedule 20**

1. All changes to the employee benefit plans shall be explained in a narrative on lines 15 and 16. All cost containment measures implemented in the reporting year shall be explained and quantified in a narrative on lines 15 & 16. All assumptions used in quantifying cost containment results shall be disclosed.
2. The schedule shall be filled out using FASB 106 and 132 guidelines.

**Schedule 21**

1. Respondents shall disclose all payments made during the year where the aggregate payment to the recipient was \$25,000 or more. Payments must include fees, retainers, commissions, gifts, contributions, assessments, bonuses, subscriptions, allowances for expenses or any other form of payment for services or as a donation.

**Schedule 23**

1. Respondents shall provide an attached sheet detailing the type and corresponding number of access lines for all entries in Column L (Other).

**Schedule 24**

1. Column (b). For each wire center that has a configuration of "Remote", Column (b) shall also reflect the respective "Host".
2. Column (c). Examples of Types of Switches are: Digital, Step by Step, and Crossbar.

**Schedule 25**

1. This schedule must be completed by all companies for the year following the reporting year.

**Schedule 26**

1. Respondents shall either report construction technicians and splicers as separate categories or footnote the appropriate categories and indicate the number of (1) construction technicians; and (2) splicers.

**Schedule 27**

1. Include in column (d) ALL additional forms of compensation, including, but not limited to: deferred compensation, deferred savings plan, profit sharing, supplemental or non-qualified retirement plan, employee stock ownership plan, restricted stock, stock options, stock appreciation rights, performance share awards, dividend equivalent shares, mortgage payments, use of company cars or car lease payments, tax preparation consulting, financial consulting, home security systems, company-paid physicals, subscriptions to periodicals, memberships, association or club dues, tuition reimbursement, employee discounts, and spouse travel.
2. The above compensation items shall be listed separately. Where more space is needed additional schedules may be attached and shall be included directly behind the original schedule to which it pertains.
3. If respondent is claiming protected status of salary information both a proprietary and non-proprietary copy of this schedule shall be filed. On the non-proprietary copy respondent shall indicate which columns respondent maintains are proprietary. A note stating that such information is being provided separately shall be included on the schedule. In no case shall either Column (a) - Name/Position, or Column (g) - Percent Increase Total Compensation, be considered proprietary. Respondent shall provide all requested information on the proprietary copy.

**Schedule 28**

1. Respondents shall provide all executive compensation information in conformance with that required by the Securities and Exchange Commission (SEC) (Regulation S-K Item 402, Executive Compensation).
2. Include in column (d) ALL additional forms of compensation, including, but not limited to: deferred compensation, deferred savings plan, profit sharing, supplemental or non-qualified retirement plan, employee stock ownership plan, restricted stock, stock options, stock appreciation rights, performance share awards, dividend equivalent shares, mortgage payments, use of company cars or car lease payments, tax preparation consulting, financial consulting, home security systems, company-paid physicals, subscriptions to periodicals, memberships, association or club dues, tuition reimbursement, employee discounts, and spouse travel.
3. All items included in Column (d) - Other Compensation shall be listed separately. Where more space is needed additional schedules may be attached and shall be included directly behind the original schedule.
4. In addition, respondents shall attach a copy of the executive compensation information provided to the SEC.

**Schedule 29**

1. Information from this schedule is consolidated with information from other Utilities and reported to the National Association of Regulatory Utility Commissioners (NARUC). Your assistance in completing this schedule, even though information may be located in other areas of the annual report, expedites reporting to the NARUC and is appreciated.

**Schedules 33 and 34**

1. Respondents shall report all transactions with affiliated companies.
2. Column (c). Respondents shall indicate in column (c) the method used to determine the price. Respondents shall indicate if a contract is in place between the Affiliate and the Utility. If a contract is in place, respondents shall indicate the year the contract was initiated, the term of the contract and the method used to determine the contract price.
3. Column (c). If the method used to determine the price is different than the previous year, respondents shall provide an explanation, including the reason for the change.

**Schedule 35**

1. Respondents shall provide an attached sheet detailing the account and the amount for all entries made to Lines 9 and 16.
2. Only companies who have specifically been authorized in a Commission Order to include cash working capital in rate base may include cash working capital in lines 9 or 16. Cash working capital must be calculated using the methodology approved in the Commission Order. The Commission Order specifying cash working capital shall be noted on the attached sheet.
3. Respondents shall indicate, for each adjustment on lines 30 through 42, if the amount is updated or if it is from the last rate case. All adjustments shall be calculated using Commission methodology.

**Schedule 36**

1. Respondents shall list the amount of tax accrued or paid for the fiscal year attributable to Montana sources for each of the listed taxes

**Schedule 37**

1. Respondents shall list the amount of Universal Service Funds received from Montana and from the federal government.

# Telephone Annual Report

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**General Information**

Year: 2004

- |     |   |                                    |
|-----|---|------------------------------------|
| 1.  | Legal Name of Respondent:                         | Southern Montana Telephone Company |
| 2.  | Name Under Which Respondent Does Business:        | Southern Montana Telephone Company |
| 3.  | Date of Incorporation:                            | 1944                               |
| 4.  | Address to send Correspondence Concerning Report: | PO Box 205, Wisdom, MT 59761       |
| 5.  | Person Responsible for This Report:               | Conrad Eklund, General Manager     |
| 5a. | Telephone Number:                                 | 406-689-3333                       |

**Control Over Respondent**

- |     |  |
|-----|--|
| 1.  | If direct control over the respondent was held by another entity at the end of year provide the following: |
| 1a. | Name and address of the controlling organization or person:  |
| 1b. | Means by which control was held:   |
| 1c. | Percent Ownership:   |

Board of Directors		
Line No.	Name of Director and Address (City, State) (a)	Fees Paid During Year (b)
1	Robert G. Helming Wisdom, MT 59761	9000
2	Conrad Eklund Wisdom, MT 59761	9000
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18	<b>Chairman of the Board:</b> Robert G. Helming	
19		
20		

## Officers

Year: 2004

Line No.	Title of Officer (a)	Department Over Which Jurisdiction is Exercised (b)	Name and Address of Person Holding Office at Year End (c)
1	President	All Departments	Robert G. Helming
2			Wisdom, MT 59761
3			
4	Secretary/Treasurer	All Departments	Conrad Eklund
5			Wisdom, MT 59761
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**Total Company Balance Sheet**

Year: 2004

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>CURRENT ASSETS:</b>		
2	1120	Cash and Equivalents	(See Attached Audit Financials)	
3	1180	Telecommunications Accounts Receivable - Net		
4	1190	Other Accounts Receivable - Net		
5	1200	Notes Receivable - Net		
6	1210	Interest and Dividends Receivable		
7	1220	Materials and Supplies		
8	* 1280	Prepayments		
9	^ 1290	Prepaid Rents		
10	^ 1300	Prepaid Taxes		
11	^ 1310	Prepaid Insurance		
12	^ 1320	Prepaid Directory Expenses		
13	^ 1330	Other Prepayments		
14	1350	Other Current Assets		
15		<b>Total Current Assets</b>		
16		<b>NONCURRENT ASSETS:</b>		
17	1401	Investments in Affiliated Companies		
18	1402	Investments in Nonaffiliated Companies		
19	1406	Nonregulated Investments		
20	1407	Unamortized Debt Issuance Expense		
21	1408	Sinking Funds		
22	1410	Other Noncurrent Assets		
23	1438	Deferred Maintenance and Retirements		
24	1439	Deferred Charges		
25	1500	Other Jurisdictional Assets - Net		
26		<b>Total Noncurrent Assets</b>		
27		<b>PROPERTY, PLANT, &amp; EQUIPMENT:</b>		
28	2001	Telecommunications Plant in Service		
29	2002	Property Held for Future Telecommunications Use		
30	2003	Plant Under Construction - Short Term		
31	2004	Plant Under Construction - Long Term		
32	2005	Telecommunications Plant Adjustment		
33	2006	Nonoperating Plant		
34	2007	Goodwill		
35	3100	Accumulated Depreciation		
36	3200	Accumulated Depreciation - Held for Future Use		
37	3300	Accumulated Depreciation - Nonoperating		
38	3400	Accumulated Amortization		
39		<b>Net Property, Plant, &amp; Equipment</b>		
40		<b>TOTAL ASSETS</b>		

^ Subaccount of account marked with a \*.

## Total Company Balance Sheet

Year: 2004

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
41		<b>CURRENT LIABILITIES:</b>		
42	4010	Accounts Payable	(See Attached Audit Financials)	
43	4020	Notes Payable		
44	4030	Advance Billing and Payments		
45	4040	Customer Deposits		
46	4050	Current Maturities - Long Term Debt		
47	4060	Current Maturities - Capital Leases		
48	4070	Income Taxes - Accrued		
49	4080	Other Taxes - Accrued		
50	4100	Net Current Deferred Operating Income Taxes		
51	4110	Net Current Deferred Nonoperating Income Taxes		
52	4120	Other Accrued Liabilities		
53	4130	Other Current Liabilities		
54		<b>Total Current Liabilities</b>		
55		<b>LONG-TERM DEBT:</b>		
56	4210	Funded Debt		
57	4220	Premium on Long-Term Debt		
58	4230	Discount on Long-Term Debt		
59	4240	Reacquired Debt		
60	4250	Obligations Under Capital leases		
61	4260	Advances From Affiliated Companies		
62	4270	Other Long-Term Debt		
63		<b>Total Long-Term Debt</b>		
64		<b>OTHER LIABILITIES AND DEFERRED CREDITS:</b>		
65	4310	Other Long-Term Liabilities		
66	4320	Unamort. Oper. Invest. Tax Credits - Net		
67	4330	Unamort. Nonoper. Invest. Tax Credits - Net		
68	4340	Net Noncurrent Deferred Oper. Income Taxes		
69	4350	Net Noncurrent Deferred Nonoper. Income Taxes		
70	4360	Other Deferred Credits		
71	4370	Other Jurisdictional Liab. and Def. Credits		
72		<b>Total Other Liabilities and Deferred Credits</b>		
73		<b>STOCKHOLDERS' EQUITY:</b>		
74	4510	Capital Stock		
75	4520	Additional Paid-In Capital		
76	4530	Treasury Stock		
77	4540	Other Capital		
78	4550	Retained Earnings		
79		<b>Total Stockholders' Equity</b>		
80		<b>TOTAL LIAB. AND STOCKHOLDERS' EQUITY</b>		

## Total Company Income Statement

Year: 2004

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues	(See Attached Audit Financials)	
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
19	6110	Network Support Expense		
20	6120	General Support Expense		
21	6210	Central Office Switching Expense		
22	6220	Operator Systems Expense		
23	6230	Central Office Transmission Expense		
24	6310	Information Origination/Termination Expense		
25	* 6410	Cable and Wire Facilities Expense		
26	^ 6431	Aerial Wire Expense		
27	^ 6441	Conduit Systems Expense		
28	6510	Other Property, Plant & Equipment Expense		
29	6530	Network Operations Expense		
30	6540	Access Expense		
31	6560	Depreciation and Amortization Expense		
32	6610	Marketing		
33	6620	Services		
34	6710	Executive and Planning		
35	6720	General and Administrative		
36	6790	Provision for Uncollectible Notes Receivable		
37		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	
41	7300	Nonoperating Income and Expense		
42	7400	Nonoperating Taxes		
43	7500	Interest and Related Items		
44	7600	Extraordinary Items		
45	7910	Effects of Juris. Ratemaking Diff. - Net		
46	7990	Nonregulated Net Income		
47		<b>NET INCOME (L.40+L.41-L.42-L.43-L.44+L.45-L.46)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.



**INDEPENDENT AUDITOR'S REPORT  
and  
FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Southern Montana Telephone Company  
Wisdom, Montana

We have audited the accompanying balance sheets of Southern Montana Telephone Company as of December 31, 2004 and 2003, and the related statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Montana Telephone Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 13, 2005, on our consideration of Southern Montana Telephone Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

MOSS ADAMS LLP

Spokane, Washington  
January 13, 2005



# **SOUTHERN MONTANA TELEPHONE COMPANY** **BALANCE SHEET**

## **ASSETS**

	December 31,	
	2004	2003
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 640,946	\$ 432,274
Investment in certificates of deposit at amortized cost	1,253,611	694,581
Subscriber receivables	51,598	58,196
Income tax refund receivable	-	75,664
Settlements and access accounts receivable	118,081	120,735
Other accounts receivable	79,648	108,801
Material and supplies	43,581	43,342
Securities held to maturity, current	20,560	20,010
Other current assets	34,392	10,979
	<u>2,242,417</u>	<u>1,564,582</u>
<b>NONCURRENT ASSETS</b>		
Investment in available for sale securities	285,311	460,747
Investment in certificates of deposit at amortized cost	207,028	384,167
Investment in held to maturity securities	40,000	120,560
Investment in affiliate	1,276	1,276
Investment in nonaffiliates	266,157	275,986
Nonregulated investments	64,482	70,824
Other noncurrent assets	12,655	12,655
	<u>876,909</u>	<u>1,326,215</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Telecommunications plant in service	7,789,458	7,802,145
Telecommunications plant under construction	10,102	5,411
	<u>7,799,560</u>	<u>7,807,556</u>
Less accumulated depreciation and amortization	4,554,955	4,105,796
	<u>3,244,605</u>	<u>3,701,760</u>
	<u>\$ 6,363,931</u>	<u>\$ 6,592,557</u>

**SOUTHERN MONTANA TELEPHONE COMPANY**  
**BALANCE SHEET**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	December 31,	
	2004	2003
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 96,304	\$ 115,038
Advance billing and customer deposits	21,180	20,993
Current maturities of long-term debt	204,037	234,335
Other accrued taxes	31,077	31,641
Other accrued liabilities	120,743	122,900
Accrued interest payable	6,763	7,454
	<u>480,104</u>	<u>532,361</u>
<b>LONG-TERM DEBT, net of current portion</b>	<u>1,994,770</u>	<u>2,199,238</u>
<b>OTHER LIABILITIES AND DEFERRED CREDITS</b>		
Deferred investment tax credits	-	40,063
Deferred income taxes	-	711,575
	<u>-</u>	<u>751,638</u>
<b>COMMITMENTS AND CONTINGENCY (Notes 9 and 10)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$10 par value; 2,703 shares authorized and 610 shares issued and outstanding at December 31, 2004 and 2003	6,100	6,100
Paid-in capital	3,290	3,290
Retained earnings	4,042,343	3,202,064
	<u>4,051,733</u>	<u>3,211,454</u>
Unrealized loss on available for sale securities, less deferred income taxes of \$-0- and \$70,244 in 2004 and 2003, respectively	(162,676)	(102,134)
	<u>3,889,057</u>	<u>3,109,320</u>
	<u>\$ 6,363,931</u>	<u>\$ 6,592,557</u>

**SOUTHERN MONTANA TELEPHONE COMPANY**  
**STATEMENT OF INCOME**

	Year Ended December 31,	
	2004	2003
OPERATING REVENUES		
Local network services	\$ 177,634	\$ 137,165
Interstate access revenue	1,364,018	1,409,173
Intrastate access revenue	364,433	379,120
Long distance network services	14,374	-
Carrier billing and collection	15,716	15,997
Miscellaneous	31,178	1,459
Nonregulated services	88,140	81,155
Uncollectible	(1,677)	(1,553)
	<u>2,053,816</u>	<u>2,022,516</u>
OPERATING EXPENSES		
Plant specific operations	328,317	356,179
Plant nonspecific operations	296,836	302,710
Depreciation	499,874	549,552
Customer operations	56,660	68,464
Corporate operations	378,859	391,968
Other operating taxes	47,900	47,330
Nonregulated	32,534	31,456
	<u>1,640,980</u>	<u>1,747,659</u>
Operating income	<u>412,836</u>	<u>274,857</u>
Nonoperating income (expense)		
Interest and dividend income	60,912	66,948
Loss on sale of investments	(236,129)	(18,089)
Interest expense	(71,987)	(85,884)
Other nonoperating expense	(40,250)	(21,151)
	<u>(287,454)</u>	<u>(58,176)</u>
Income before taxes	125,382	216,681
Income tax benefit (expense)	<u>830,940</u>	<u>(77,427)</u>
NET INCOME	<u>\$ 956,322</u>	<u>\$ 139,254</u>

Schedule 7.0

## SOUTHERN MONTANA TELEPHONE COMPANY STATEMENT OF STOCKHOLDERS' EQUITY

	<u>Total</u>	<u>Common Stock</u>	<u>Paid in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Comprehensive Loss</u>	<u>Comprehensive Income (Loss)</u>
Balance, December 31, 2002	\$ 2,994,318	\$ 6,100	\$ 3,290	\$ 3,062,810	\$ (77,882)	
Net income	139,254	-	-	139,254	-	\$ 139,254
Unrealized loss on available for sale securities, net of tax	(24,252)	-	-	-	(24,252)	(24,252)
Reclassification adjustment, net of tax	-	-	-	-	-	(10,718)
Comprehensive income						<u>\$ 104,284</u>
Balance, December 31, 2003	3,109,320	6,100	3,290	3,202,064	(102,134)	
Net income	956,322	-	-	956,322	-	\$ 956,322
Unrealized loss on available for sale securities	(60,542)	-	-	-	(60,542)	(60,542)
Distributions	(116,043)	-	-	(116,043)	-	
Reclassification adjustment	-	-	-	-	-	31,015
Comprehensive income						<u>\$ 926,795</u>
Balance, December 31, 2004	<u>\$ 3,889,057</u>	<u>\$ 6,100</u>	<u>\$ 3,290</u>	<u>\$ 4,042,343</u>	<u>\$ (162,676)</u>	

See accompanying notes.

Schedule 7.7

**SOUTHERN MONTANA TELEPHONE COMPANY**  
**STATEMENT OF CASH FLOWS**

---

	Year Ended December 31,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 956,322	\$ 139,254
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	499,874	549,552
Nonregulated depreciation	268	270
Noncash patronage dividends	4,170	(2,915)
Amortization of discount on certificates of deposit	(25,868)	(36,321)
Amortization of deferred investment tax credit	(40,063)	(8,753)
Net realized loss on investments	236,129	18,089
Loss on disposal of nonregulated assets	1,448	-
Deferred income taxes	(781,819)	(2,214)
Change in assets and liabilities:		
Accounts receivable	38,405	(62,628)
Federal income tax	75,662	(89,838)
Material and supplies	(239)	(4,131)
Other assets	(23,413)	32,737
Accounts payable and accrued expenses	(22,146)	(11,482)
Advance payments and customer deposits	186	2,181
Net cash provided by operating activities	<u>918,915</u>	<u>523,801</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net additions to telephone plant	(57,219)	(551,192)
Proceeds from disposals of plant	14,500	48,726
Proceeds from sales of investments	1,217,501	1,078,572
Purchase of investments	(1,534,216)	(875,313)
Net cash used by investing activities	<u>(359,434)</u>	<u>(299,207)</u>

**SOUTHERN MONTANA TELEPHONE COMPANY**  
**STATEMENT OF CASH FLOWS**

	Year Ended December 31,	
	2004	2003
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments of long-term debt	\$ (234,766)	\$ (336,568)
Equity distributions	(116,043)	-
Net cash used by financing activities	(350,809)	(336,568)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>208,672</b>	<b>(111,974)</b>
Cash and cash equivalents at beginning of year	432,274	544,248
Cash and cash equivalents at end of year	\$ 640,946	\$ 432,274
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
Cash paid during the year for:		
Interest	\$ 72,551	\$ 85,727
Income taxes	\$ -	\$ 183,213
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Net increase in unrealized loss on available for sale securities	\$ 60,542	\$ 24,252

## Montana Total State Income Statement

Year: 2004

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues		
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue	(Not Applicable-Doing Business In Montana Only)	
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
19	6110	Network Support Expense		
20	6120	General Support Expense		
21	6210	Central Office Switching Expense		
22	6220	Operator Systems Expense		
23	6230	Central Office Transmission Expense		
24	6310	Information Origination/Termination Expense		
25	* 6410	Cable and Wire Facilities Expense		
26	^ 6431	Aerial Wire Expense		
27	^ 6441	Conduit Systems Expense		
28	6510	Other Property, Plant & Equipment Expense		
29	6530	Network Operations Expense		
30	6540	Access Expense		
31	6560	Depreciation and Amortization Expense		
32	6610	Marketing		
33	6620	Services		
34	6710	Executive and Planning		
35	6720	General and Administrative		
36	6790	Provision for Uncollectible Notes Receivable		
37		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.

## Montana Intrastate Income Statement

Year: 2004

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues	(Not Applicable-Doing Business In Montana Only)	
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue		
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
19	6110	Network Support Expense		
20	6120	General Support Expense		
21	6210	Central Office Switching Expense		
22	6220	Operator Systems Expense		
23	6230	Central Office Transmission Expense		
24	6310	Information Origination/Termination Expense		
25	* 6410	Cable and Wire Facilities Expense		
26	^ 6431	Aerial Wire Expense		
27	^ 6441	Conduit Systems Expense		
28	6510	Other Property, Plant & Equipment Expense		
29	6530	Network Operations Expense		
30	6540	Access Expense		
31	6560	Depreciation and Amortization Expense		
32	6610	Marketing		
33	6620	Services		
34	6710	Executive and Planning		
35	6720	General and Administrative		
36	6790	Provision for Uncollectible Notes Receivable		
37		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.



## Montana Intrastate Regulated Income Statement

Year: 2004

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1		<b>REVENUES:</b>		
2	5000	Basic Local Service Revenues		
3	5080	Network Access Revenues		
4	* 5100	Long Distance Message Revenue	(Not Applicable-Doing Business In Montana Only)	
5	^ 5110	Unidirectional Long Distance Revenue		
6	^ 5120	Long Distance Private Network Revenue		
7	^ 5160	Other Long Distance Revenue		
8	^ 5169	Other Long Distance Revenue Settlements		
9	* 5200	Miscellaneous Revenue		
10	^ 5230	Directory Revenue		
11	^ 5240	Rent Revenue		
12	^ 5250	Corporate Operations Revenue		
13	^ 5260	Miscellaneous Revenue		
14	^ 5270	Carrier Billing and Collection Revenue		
15	^ 5280	Nonregulated Revenue		
16	5300	Uncollectible Revenue		
17		<b>Total Revenues (L.2+L.3+L.4+L.9-L.16)</b>	#VALUE!	
18		<b>OPERATING EXPENSES:</b>		
19	6110	Network Support Expense		
20	6120	General Support Expense		
21	6210	Central Office Switching Expense		
22	6220	Operator Systems Expense		
23	6230	Central Office Transmission Expense		
24	6310	Information Origination/Termination Expense		
25	* 6410	Cable and Wire Facilities Expense		
26	^ 6431	Aerial Wire Expense		
27	^ 6441	Conduit Systems Expense		
28	6510	Other Property, Plant & Equipment Expense		
29	6530	Network Operations Expense		
30	6540	Access Expense		
31	6560	Depreciation and Amortization Expense		
32	6610	Marketing		
33	6620	Services		
34	6710	Executive and Planning		
35	6720	General and Administrative		
36	6790	Provision for Uncollectible Notes Receivable		
37		<b>Total Operating Expenses (Sum L.19 to L.36-L.26-L.27)</b>		
38	7100	Other Operating Income and Expense		
39	7200	Operating Taxes		
40		<b>Net Operating Income (L.17-L.37+L.38-L.39)</b>	#VALUE!	

^ Subaccount of the account marked with a \*.

**Average Rate Base - Total State**

Year: 2004

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service	7774319	7787006
2	3100	Accumulated Depreciation	4539816	4090657
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies	43581	43342
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		<b>Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)</b>	3278084	3739691

**Average Rate Base - Intrastate**

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service		
2	3100	Accumulated Depreciation		
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies		
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		<b>Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)</b>		

**Average Rate Base - Regulated Intrastate**

Line No.	Acct. No. (a)	Description (b)	This Year (c)	Last Year (d)
1	2001	Telecommunications Plant in Service		
2	3100	Accumulated Depreciation		
3	2002	Property Held for Future Telecommunications Use		
4	3200	Accumulated Depreciation - 2002		
5	1220	Materials and Supplies		
6	4340	Noncurrent Deferred Operating Income Taxes		
7		Pre-1971 Unamortized Investment Tax Credits		
8		Cash Working Capital (if allowed by Commission)		
9		<b>Total Average Rate Base (L.1-L.2+L.3-L.4+L.5-L.6-L.7+L.8)</b>		

## Statement of Cash Flows

Year: 2004

Line No.	Item Description (a)	Amount (b)	Amount (c)
1	<b>Increase/(decrease) in Cash &amp; Cash Equivalents</b>		
2	<b>Cash Flows from Operating Activities:</b>		
3	Net Income		
4	Reconciliation Adjustments:	(See Attached Statement of Cash Flows)	
5	Depreciation & Amortization		
6	Provision for Accounts Receivable Losses		
7	Deferred Income Taxes - Net		
8	Unamortized Investment Tax Credits (ITCs) - Net		
9	Allowance for Funds Used During Construction (AFUDC)		
10	Change in Operating Receivables - Net		
11	Change in Materials, Supplies & Inventories - Net		
12	Change in Operating Payables & Accrued Liabilities - Net		
13	Change in Other Assets & Deferred Credits - Net		
14	Change in Other Liabilities & Deferred Credits - Net		
15	Other (explained on back of this page)		
16	Total Adjustments		
17	<b>Net Cash Provided by/(Used in) Operating Activities</b>		
18	<b>Cash Inflows/Outflows From Investing Activities:</b>		
19	Construction/Acquisition of Property, Plant & Equipment (net of		
20	AFUDC & Capital Lease Related Acquisitions)		
21	Proceeds from Disposals of Property, Plant & Equipment		
22	Investments In & Advances to Affiliates		
23	Proceeds from Repayment of Advances		
24	Other Investing Activities (explained on back of this page)		
25	<b>Net Cash Provided by/(Used in) Investing Activities</b>		
26	<b>Cash Flows from Financing Activities:</b>		
27	Net Incr./(Decr.) in Short-Term Debt, Original maturity < = 3 mo.		
28	Advances from Affiliates		
29	Repayment of Advances from Affiliates		
30	Proceeds from Issuances of Long-Term Debt		
31	Repayment of Long-Term Debt		
32	Payment of Capital Lease Obligations		
33	Proceeds from Issuing Common Stock/Parent Co. Equity Investment		
34	Repurchase of Treasury Shares		
35	Dividends Paid		
36	Other Financing Activities (explained on back of this page)		
37	<b>Net Cash Provided by Financing Activities</b>		
38	<b>Effect of Exchange Rate Changes on Cash</b>		
39	<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>		
40	<b>Cash &amp; Cash Equivalents at Beginning of Period</b>		
41	<b>Cash &amp; Cash Equivalents at End of Period</b>		

## Receivables and Investments-Affiliated &amp; Nonaffiliated Companies

Year: 2004

Line No.	Name of Affiliate or Company (a)	Account 1160 Temporary Investments (b)	Account 1180 Telecom. Accounts Receivable (c)	Account 1181 Accts. Rec. Telecom. Allowance (d)	Account 1190 Other Accounts Receivable (e)	Account 1191 Accounts Receivable Allow. - Other (f)	Account 1200 Notes Receivable (g)	Account 1201 Notes Receivable Allowance (h)	Account 1210 Interest and Dividends Receivable (i)	Account 1401 Investments in Affil. Companies (j)	Account 1402 Investments in Nonaffil. Companies (k)
1	Various Stocks										
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											
17											
18											
19											
20											
21											
22											
23											
24											
25											
26											
27											
28											
29											
30	Totals										419852

## Net Plant in Service - Detail

Year: 2004

Line No.	Account (a)	Description (b)	Beginning of Year Balance (c)	Additions (d)	Retirements (e)	Sales & Transfers (f)	End of Year Account 2001 Balance (g)	Year End Accumulated Depreciation (h)	End of Year Net Plant Balance (i)
1	*	Land and Support Assets	1398056	76451	7144	88609	1378754		1378754
2	^	Land	38451				38451		38451
3	^	Motor Vehicles	204208	64367		58126	210449		210449
4	^	Aircraft							
5	^	Special Purpose Vehicles							
6	^	Garage Work Equipment							
7	^	Other Work Equipment	505070	12084		30483	486671		486671
8	^	Buildings	597192				597192		597192
9	^	Furniture							
10	^	Office Equipment	19504				19504		19504
11	^	General Purpose Computers	33631		7144		26487		26487
12		Analog Electronic Switching							
13		Digital Electronic Switching	1252226	10703			1262929		1262929
14		Electro-Mechanical Switching							
15		Operator Systems							
16		Radio Systems							
17		Circuit Equipment	698665	6377	2262		702780		702780
18	*	Information Orig & Term Equip	18527				18527		18527
19	^	Station Apparatus	18527				18527		18527
20	^	Customer Premises Wiring							
21	^	Large Private Branch Exchanges							
22	^	Public Telephone Term. Equip.							
23	^	Other Terminal Equipment							
24		Poles							
25	*	Cable and Wire Facilities	4434670	18798	27000		4426468		4426468
26	^	Aerial Cable	33375				33375		33375
27	^	Underground Cable	4401295	18798	27000		4393093		4393093
28	^	Buried Cable							
29	^	Submarine Cable							
30	^	Deep Sea Cable							
31	^	Intrabuilding Network Cable							
32		Aerial Wire							
33		Conduit Systems							
34		<b>Totals</b>	7802144	112329	36406	88609	7789458		7789458

^ Subaccount of the account marked with a \*.

Analysis of Plant Held for Future Use

Year: 2004

Line No.	Location and Description of Property (a)	Date Included in Account 2002 (b)	Book Cost of Property at Beginning of Year (c)	Additions During the Year (d)	Retirements During the Year (e)	Transfers and Adjustments Charges and (Credits) (f)	Book Cost of Property at End of Year (g)
1	NONE						
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30	Totals (Sum L.1 to L.29)						

Average Cost of Long Term Debt												Year:2000
Line No.	Description (a)	Issue Date (b)	Maturity Date (c)	Principal Amount (d)	Gross Proceeds (e)	Net Proceeds (f)	Net Per \$100 (g)	Outstanding Per Balance Sheet (h)	Yield to Maturity (i)	Annual Net Cost (j)	Amortization of Premium or Discount (k)	Total Cost (%) (l)
1	U.S. Of America Note Payable	Aug-81 Oct-01	Aug-17 Sep-10	4087000 665000				1766240 432567		36302 35113		
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30	Total			4752000				2198807		71415		3.25%

## Cost of Preferred Stock

Year: 2004

Line No.	Description (a)	Date of Issuance (b)	Method of Offering (c)	Call Redemption Price (d)	Par Value Of Issue (e)	Gross Proceeds Amounts (f)	Net Proceeds Amounts (g)	Net Proceeds Per \$100 (h)	Cost of Money (i)	Principal Outstanding (j)	Annual Cost (k)	Embedded Cost (l)
1	NONE											
2												
3												
4												
5												
6												
7												
8												
9												
10												
11												
12												
13												
14												
15												
16												
17												
18												
19												
20												
21												
22												
23												
24												
25												
26												
27												
28												
29												
30	Totals (Sum L.1 to L.29)											



## Analysis of Common Stock

Year: 2004

Line No.	(a)	Avg. Number of Shares Outstanding (b)	Book Value (per share) (c)	Earnings (per share) (d)	Dividends (per share) (e)	Retention Ratio (f)	Market Price High (g) Low (h)	Price/Earnings Ratio (i)
1	Year Ended December 31:	610						
2								
3								
4								
5								
6								
7								
8	Month by Month Data:							
9	January							
10	February							
11	March							
12	April							
13	May							
14	June							
15	July							
16	August							
17	September							
18	October							
19	November							
20	December							
21								
22								
23								

\*PRIVATELY HELD STOCK\*-There is no market for this stock.

(NOT APPLICABLE-UNDER 5000 ACCESS LINES)

Capital Stock and Funded Debt Reacquired or Retired During the Year

Year: 2004

Line No.	Description of Security (a)	Call or Retirement Date (b)	Number of Shares (c)	Principal Amount (d)	Reacquisition or Retirement Cost (e)	Gain or (Loss) (f)	Retirement or Reacquisition (g)
1	NONE						
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							
29							
30	Totals (Sum L.1 to L.29)						

## Total Company Expense Matrix

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rentis (e)	Other Expenses (f)	Clearances (g)	Total (h)
1	*	Network Support Expense	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
2	^	Motor Vehicle Expense						
3	^	Aircraft Expense						
4	^	Special Purpose Vehicles Expense						
5	^	Garage Work Equipment Expense						
6	^	Other Work Equipment Expense						
7	*	General Support Expense						
8	^	Land and Building Expense						
9	^	Furniture and Artworks Expense						
10	^	Office Equipment Expense						
11	^	General Purpose Computers Expense						
12	*	Central Office Switching Expense						
13	^	Analog Electronic Expense						
14	^	Digital Electronic Expense						
15	^	Electro-Mechanical Expense						
16		Operator Systems Expense						
17	*	Central Office Transmission Expense						
18	^	Radio Systems Expense						
19	^	Circuit Equipment Expense						
20	*	Information Origination/Termination Expense						
21	^	Station Apparatus Expense						
22	^	Large Private Branch Exchange Expense						
23	^	Public Telephone Terminal Equipment Exp.						
24	^	Other Terminal Equipment Expense						
25	*	Cable and Wire Facilities Expense						
26	^	Poles Expense						
27	^	Aerial Cable Expense						
28	^	Underground Cable Expense						
29	^	Buried Cable Expense						
30	^	Submarine Cable Expense						
31	^	Deep Sea Cable Expense						
32	^	Intrabuilding Network Cable Expense						
33	^	Aerial Wire Expense						
34		Subtotals						

^ Subaccount of the account marked with a \*

## Total Company Expense Matrix

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
35	^	Conduit Systems Expense	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
36	6441	Other Property Expenses						
37	* 6530	Network Operations Expense						
38	^ 6531	Power Expense						
39	^ 6532	Network Administration Expense						
40	^ 6533	Testing Expense						
41	^ 6534	Plant Operations Expense						
42	^ 6535	Engineering Expense						
43	6540	Access Expense						
44	6561	Depreciation - Telecomm. Plant in Service						
45	6562	Depreciation-Prop. for Future Telecom. Use						
46	6563	Amortization Expense - Tangible						
47	6564	Amortization Expense - Intangible						
48	6565	Amortization - Other						
49	* 6610	Marketing						
50	^ 6611	Product Management						
51	^ 6612	Sales						
52	^ 6613	Product Advertising						
53	6621	Call Completion Services						
54	6622	Number Services						
55	6623	Customer Services						
56	6711	Executive						
57	6712	Planning						
58	6721	Accounting and Finance						
59	6722	External Relations						
60	6723	Human Relations						
61	6724	Information Management						
62	6725	Legal						
63	6726	Procurement						
64	6727	Research and Development						
65	6728	Other General and Administrative						
66	6790	Provision for Uncollectible Notes Receivable						
67		<b>Totals</b>						

^ Subaccount of the account marked with a \*.

## Total State Expense Matrix

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
1	*	Network Support Expense	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
2	^	Motor Vehicle Expense						
3	^	Aircraft Expense						
4	^	Special Purpose Vehicles Expense						
5	^	Garage Work Equipment Expense						
6	^	Other Work Equipment Expense						
7	*	General Support Expense						
8	^	Land and Building Expense						
9	^	Furniture and Artworks Expense						
10	^	Office Equipment Expense						
11	^	General Purpose Computers Expense						
12	*	Central Office Switching Expense						
13	^	Analog Electronic Expense						
14	^	Digital Electronic Expense						
15	^	Electro-Mechanical Expense						
16		Operator Systems Expense						
17	*	Central Office Transmission Expense						
18	^	Radio Systems Expense						
19	^	Circuit Equipment Expense						
20	*	Information Origination/Termination Expense						
21	^	Station Apparatus Expense						
22	^	Large Private Branch Exchange Expense						
23	^	Public Telephone Terminal Equipment Exp.						
24	^	Other Terminal Equipment Expense						
25	*	Cable and Wire Facilities Expense						
26	^	Poles Expense						
27	^	Aerial Cable Expense						
28	^	Underground Cable Expense						
29	^	Buried Cable Expense						
30	^	Submarine Cable Expense						
31	^	Deep Sea Cable Expense						
32	^	Intrabuilding Network Cable Expense						
33	^	Aerial Wire Expense						
34		Subtotals						

^ Subaccount of the account marked with a \*.

## Total State Expense Matrix

Line No.	Acct. No. (a)	Description (b)	Salaries and Wages (c)	Benefits (d)	Rents (e)	Other Expenses (f)	Clearances (g)	Total (h)
35	^	Conduit Systems Expense	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)					
36	6441	Other Property Expenses						
37	*	Network Operations Expense						
38	^	Power Expense						
39	^	Network Administration Expense						
40	^	Testing Expense						
41	^	Plant Operations Expense						
42	^	Engineering Expense						
43		Access Expense						
44		Depreciation - Telecomm. Plant in Service						
45		Depreciation-Prop. for Future Telecom. Use						
46		Amortization Expense - Tangible						
47		Amortization Expense - Intangible						
48		Amortization - Other						
49	*	Marketing						
50	^	Product Management						
51	^	Sales						
52	^	Product Advertising						
53		Call Completion Services						
54		Number Services						
55		Customer Services						
56		Executive						
57		Planning						
58		Accounting and Finance						
59		External Relations						
60		Human Relations						
61		Information Management						
62		Legal						
63		Procurement						
64		Research and Development						
65		Other General and Administrative						
66		Provision for Uncollectible Notes Receivable						
67		Totals						

^ Subaccount of the account marked with a \*.

**Pension Costs**

Year: 2004

1	Plan Name _____			
2	Defined Benefit Plan? _____	Defined Contribution Plan? _____		
3	Actuarial Cost Method? _____	IRS Code: _____		
4	Annual Contribution by Employer: <u>\$75,158</u>	Is the Plan Over Funded? _____		
5				
	Item	Current Year	Last Year	% Change
6	<b>Change in Benefit Obligation</b>			
7	Benefit obligation at beginning of year			
8	Service cost			
9	Interest Cost			
10	Plan participants' contributions			
11	Amendments			
12	Actuarial Gain			
13	Acquisition			
14	Benefits paid			
15	Benefit obligation at end of year			
16	<b>Change in Plan Assets</b>			
17	Fair value of plan assets at beginning of year			
18	Actual return on plan assets			
19	Acquisition			
20	Employer contribution			
21	Plan participants' contributions			
22	Benefits paid			
23	Fair value of plan assets at end of year			
24	<b>Funded Status</b>			
25	Unrecognized net actuarial loss			
26	Unrecognized prior service cost			
27	Prepaid (accrued) benefit cost			
28				
29	<b>Weighted-average Assumptions as of Year End</b>			
30	Discount rate			
31	Expected return on plan assets			
32	Rate of compensation increase			
33				
34	<b>Components of Net Periodic Benefit Costs</b>			
35	Service cost			
36	Interest cost			
37	Expected return on plan assets			
38	Amortization of prior service cost			
39	Recognized net actuarial loss			
40	Net periodic benefit cost			
41				
42	<b>Montana Intrastate Costs:</b>			
43	Pension Costs			
44	Pension Costs Capitalized			
45	Accumulated Pension Asset (Liability) at Year End			
46	<b>Number of Company Employees:</b>			
47	Covered by the Plan			
48	Not Covered by the Plan			
49	Active			
50	Retired			
51	Deferred Vested Terminated			

## Other Post Employment Benefits (OPEBS)

Item	Current Year	Last Year	% Change
<b>1 Regulatory Treatment:</b>			
2 Commission authorized - most recent			
3 Docket number: _____			
4 Order number: _____			
5 Amount recovered through rates			
<b>6 Weighted-average Assumptions as of Year End</b>			
7 Discount rate			
8 Expected return on plan assets			
9 Medical Cost Inflation Rate			
10 Actuarial Cost Method			
11 Rate of compensation increase			
<b>12 List each method used to fund OPEBs (ie: VEBA, 401(h)) and if tax advantaged:</b>			
13			
14			
<b>15 Describe any Changes to the Benefit Plan:</b>			
16			
<b>17 TOTAL COMPANY</b>			
<b>18 Change in Benefit Obligation</b>			
19 Benefit obligation at beginning of year			
20 Service cost			
21 Interest Cost			
22 Plan participants' contributions			
23 Amendments			
24 Actuarial Gain			
25 Acquisition			
26 Benefits paid			
27 Benefit obligation at end of year			
<b>28 Change in Plan Assets</b>			
29 Fair value of plan assets at beginning of year			
30 Actual return on plan assets			
31 Acquisition			
32 Employer contribution			
33 Plan participants' contributions			
34 Benefits paid			
35 Fair value of plan assets at end of year			
<b>36 Funded Status</b>			
37 Unrecognized net actuarial loss			
38 Unrecognized prior service cost			
39 Prepaid (accrued) benefit cost			
<b>40 Components of Net Periodic Benefit Costs</b>			
41 Service cost			
42 Interest cost			
43 Expected return on plan assets			
44 Amortization of prior service cost			
45 Recognized net actuarial loss			
46 Net periodic benefit cost			
<b>47 Accumulated Post Retirement Benefit Obligation</b>			
48 Amount Funded through VEBA			
49 Amount Funded through 401(h)			
50 Amount Funded through Other _____			
51 TOTAL			
52 Amount that was tax deductible - VEBA			
53 Amount that was tax deductible - 401(h)			
54 Amount that was tax deductible - Other _____			
55 TOTAL			



## Other Post Employment Benefits (OPEBS) Continued

Year: 2004

	Item	Current Year	Last Year	% Change
1	<b>Number of Company Employees:</b>			
2	Covered by the Plan			
3	Not Covered by the Plan			
4	Active			
5	Retired			
6	Spouses/Dependants covered by the Plan			
7	<b>Montana</b>			
8	<b>Change in Benefit Obligation</b>			
9	Benefit obligation at beginning of year			
10	Service cost			
11	Interest Cost			
12	Plan participants' contributions			
13	Amendments			
14	Actuarial Gain			
15	Acquisition			
16	Benefits paid			
17	Benefit obligation at end of year			
18	<b>Change in Plan Assets</b>			
19	Fair value of plan assets at beginning of year			
20	Actual return on plan assets			
21	Acquisition			
22	Employer contribution			
23	Plan participants' contributions			
24	Benefits paid			
25	Fair value of plan assets at end of year			
26	<b>Funded Status</b>			
27	Unrecognized net actuarial loss			
28	Unrecognized prior service cost			
29	Prepaid (accrued) benefit cost			
30	<b>Components of Net Periodic Benefit Costs</b>			
31	Service cost			
32	Interest cost			
33	Expected return on plan assets			
34	Amortization of prior service cost			
35	Recognized net actuarial loss			
36	Net periodic benefit cost			
37	<b>Accumulated Post Retirement Benefit Obligation</b>			
38	Amount Funded through VEBA			
39	Amount Funded through 401(h)			
40	Amount Funded through other _____			
41	TOTAL			
42	Amount that was tax deductible - VEBA			
43	Amount that was tax deductible - 401(h)			
44	Amount that was tax deductible - Other			
45	TOTAL			
46	<b>Montana Intrastate Costs:</b>			
47	Pension Costs			
48	Pension Costs Capitalized			
49	Accumulated Pension Asset (Liability) at Year End			
50	<b>Number of Montana Employees:</b>			
51	Covered by the Plan			
52	Not Covered by the Plan			
53	Active			
54	Retired			
55	Spouses/Dependants covered by the Plan			

## Payments for Services to Persons Other Than Employees

Year: 2004

Line No.	Name of Recipient (a)	Nature of Service (b)	Total Company Cost (c)	Total State Cost (d)	Intrastate Cost (e)
1	(NOT APPLICABLE-UNDER 5000 ACCESS LINES)				
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
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26					
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29					
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33					
34					
35					
36					
37					
38					
39					
40					
41					
42					
43					
44					
45					
46					
47					
48					
49	Total				

## Subscriber Line Usage Data

Year: 2004

Line No.	Description (a)	This Year (b)	% of Total (c)	Last Year (d)	% of Total (e)
1	Toll Usage:				
2	Interstate, InterLATA	3878494	60.16%	3668206	58.75%
3	Interstate, IntraLATA				
4	<b>Total Interstate Usage</b>	3878494	60.16%	3668206	58.75%
5	Intrastate, InterLATA	424096	6.58%	428827	6.87%
6	Intrastate, IntraLATA	2144027	33.26%	2146554	34.38%
7	<b>Total Intrastate Usage</b>	2568123	39.84%	2575381	41.25%
8	<b>Total Toll Usage</b>	6446617	100.00%	6243587	100.00%
9	Centrex				
10	Local				
11	<b>Total Minutes</b>	6446617	100.00%	6243587	100.00%

## Central Office and Access Line Statistics

Year: 2004

Line No.	Wire Center (a)	Type of Office (b)	Residential (c)	ISDN (d)	ADSL (e)	Lifeline Customers (f)	Residential LMS Customers (g)	Single Line Business (h)	Multi-Line Business (i)	Customer Owned Coin (j)	Company Owned Coin (k)	Other (l)	% of Lines w/ T. Tone (m)	Total Access Lines (n)
1	DIVIDE	DIGITAL	64			1		7	8		1		100.0%	80
2	GRANT	DIGITAL	86			1		2	6		1		100.0%	95
3	JACKSON	DIGITAL	169					15	7		2		100.0%	193
4	WISDOM	DIGITAL	166			1		15	28		1		100.0%	210
5	WISE RIVER	DIGITAL	173			3		19	14		1		100.0%	207
6														
7														
8														
9														
10														
11														
12														
13														
14														
15														
16														
17														
18														
19														
20														
21														
22														
23														
24														
25														
26														
27														
28														
29														
30														
31														
32														
33	<b>Total</b>		658			6		58	63		6		5	785

NOTE: Additional blank schedules are being provided for your convenience.

## Central Office and Switch Information

Year: 2004

Line No.	Wire Center (a)	Office Configuration (Host, Remote, Stand alone) (b)	Type of Switch (c)	Switch Vendor/ Manufacturer (d)	Switch Model No. (e)	Switch Line Capacity (f)	Year Deployed (g)
1	406-267	REMOTE	DIGITAL	NTI	DMS-10	512	1990
2	406-832	REMOTE	DIGITAL	NTI	DMS-10	512	1983
3	406-689-S	REMOTE	DIGITAL	NTI	DMS-10	512	1983
4	406-689	HOST	DIGITAL	NTI	DMS-10	640	1983
5	406-834-J	REMOTE	DIGITAL	NTI	DMS-10	512	1983
6	406-864-T	REMOTE	DIGITAL	NTI	DMS-10	512	1983
7	406-681	REMOTE	DIGITAL	NTI	DMS-10	512	1983
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
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45							
46							
47							
48							

NOTE: Additional blank schedules are being provided for your convenience.

## Construction Budget - Montana

Year: 2005

Line No.	Description (a)	2005 (b)
1	<b>Central Office Assets:</b>	
2	Equipment Upgrade	120000
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27	Total Switching and Central Office Projects over \$500,000	
28	Miscellaneous Central Office Projects not over \$500,000	
29	<b>Total Central Office Budget (Total of Line 27 &amp; Line 28)</b>	
30	<b>Other Projects over \$500,000:</b>	
31	Grant Upgrade	700000
32		
33		
34		
35		
36		
37		
38		
39		
40		
41	Total Other Projects over \$500,000	
42	Miscellaneous projects not over \$500,000	
43	<b>Total Construction Budget (Total of Lines 29, 41 &amp; 42)</b>	820000

## Montana Employee Counts

Year: 2004

Line No.	Category (a)	Beginning of Year (b)	End of Year (c)
1	Executive	1	1
2	Office	3	3
3	Outside Plant/COE	2	2
4			
5			
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
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36			
37			
38			
39			
40			
41			
42			
43	Totals (Sum of Lines 1 through 42)	6	6

## Compensation of Top 10 Montana Based Employees

Year: 2004

Line No.	Name/Title (a)	Base Salary (b)	Bonuses (c)	Other Compensation (d)	Total Compensation (e)	Total Compensation Last Year (f)	% Increase Total Compensation (g)
1	Robert G. Helming CEO	*NOTE - Columns (b) through (g) are considered proprietary and subject to protective order No. 6348 issued in Docket N2001.5.62 Information will be submitted in a separate filing.					
2	Conrad Eklund General Manager						
3	Richard Nickisch Plant Manager						
4	Rex Caraker Combination Tech						
5	Yvonne Jackson Commercial Supv.						
6	Dorothy Tucker Clerical						
7	Tara Helming Clerical						
8							
9							
10							
11	Totals (Sum L.1 to L.10)						



**Compensation of Top 5 Corporate Employees - SEC Information**

Line No.	Name/Title (a)	Base Salary (b)	Bonuses (c)	Other Compensation (d)	Total Compensation (e)	Total Compensation Last Year (f)	% Increase Total Compensation (g)
1	NOT APPLICABLE - NO REPORTS SUBMITTED TO SEC						
2							
3							
4							
5							
6	Totals (Sum L.1 to L.5)						

\*NOT APPLICABLE\*-Not able to provide this information. Would require hiring outside consultants.

## Montana Composite Statistics

Year: 2004

Line No.	Account No.	Description (a)	Amount (b)
1		<b>Plant (Intrastate Only) (000 Omitted)</b>	
2	2001	Plant in Service	
3	2003 - 2004	Construction Work in Progress	
4	2005	Plant Acquisition Adjustments	
5	2002	Plant Held for Future Use	
6	1220	Materials & Supplies	
7		(Less):	
8	3100 - 3400	Depreciation & Amortization Reserves	
9	4360.2	Contributions in Aid of Construction	
10		<b>NET BOOK COSTS</b>	
11		<b>Revenues &amp; Expenses (Intrastate Only) (000 Omitted)</b>	
12	5000 - 5300	Operating Revenues	
13	6560	Depreciation & Amortization Expenses	
14		Federal & State Income Taxes	
15		Other Taxes	
16		Other Operating Expenses	
17		TOTAL Operating Expenses	
18		Net Operating Income	
19		* Other Income	
20		Other Deductions	
21		<b>NET INCOME</b>	
22		<b>Access Lines in Service (Intrastate Only)</b>	
23		Residential Access Lines	
24		Business Access Lines	
25		PBX Access Lines	
26		Other Access Lines	
27		<b>Total Number of Access Lines</b>	
28		<b>Average Number of Calls Per Access Line</b>	
29		Local Calls	
30		Toll Calls (Intra- or Interstate)	
31		<b>Total Number of Calls Per Access Line (Total of Line 29 &amp; Line 30)</b>	
32		<b>Other Statistics (Intrastate Only)</b>	
33		Average Residential Monthly Bill	
34		Gross Plant Investment per Access Line	

## Depreciation - Montana Intrastate Regulated

Year: 2004

Line No.	Acct No. (a)	Description (b)	Composite Rate % (c)	Total Expense \$ (d)
1	2112	Motor Vehicles	33.0%	25,048
2	2114	Special Purpose Vehicles		
3	2115	Garage Work Equipment		
4	2116	Other work Equipment	13.4%	6,721
5	2121	Buildings	4.2%	25,082
6	2122	Furniture		
7	2123.1	Office Support Equipment	11.7%	
8	2123.2	Company Communications Equipment	9.3%	1,714
9	2124	General Purpose Computers	20.0%	6,369
10	2211	Analog Electronic Switching Equipment		
11	2212	Digital Electronic Switching Equipment	10.0%	138,092
12	2215	Step By Step Switching Equipment		
13	2215	Crossbar Switching Equipment		
14	2220	Operator System		
15	2231	Radio Systems		
16	2232	Circuit DDS		
17	2232	Circuit Digital	10.0%	70,024
18	2232	Circuit Analog		
19	2351	Public Telephone Terminating Equipment		
20	2362	Other Terminal Equipment		
21	2411	Poles		
22	2421	Aerial Cable Metallic		
23	2421	Aerial Cable Nonmetallic		
24	2422	Underground Cable Metallic		
25	2422	Underground Cable Nonmetallic		
26	2423	Buried Cable Metallic	5.0%	148,255
27	2423	Buried Cable Nonmetallic	5.0%	71,313
28	2424	Submarine Cable Metallic		
29	2424	Submarine Cable Nonmetallic		
30	2426	Intrabuilding Network Cable Metallic		
31	2426	Intrabuilding Network Cable Nonmetallic		
32	2431	Aerial Wire	5.0%	1,669
33	2441	Conduit Systems		
34				
35		<b>COMPOSITE TOTAL</b>		
36				
37	Have these rates been approved by the Commission? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO			
38				
39	If yes: _____ Docket Number _____ Order Number			
40				

## Montana Regulatory Capital Structure &amp; Costs

Year: 2004

Line No.	Description (a)	% Cap. Str. (b)	% Cost Rate (c)	Weighted Cost (d)
	<b>Commission Accepted - Most Recent</b>			
1	Docket Number			
2	Order Number			
3				
4	Common Equity			
5	Preferred Stock			
6	Long Term Debt			
7	Other			
8	<b>Total</b>			
9				
10	<b>Actual at Year End</b>			
11				
12	Common Equity			
13	Preferred Stock			
14	Long Term Debt			
15	Other			
16	<b>Total</b>			

## Network Access - Charges and Revenues

Year: 2004

Line No.	Description (a)	Access Charges Paid (b)	Access Revenues Received (c)
1	Montana - Total State		359721
2			
3	Montana - Intrastate		359721
4			
5	Montana - Intrastate Regulated		359721
6			
7			
8			
9			
10			
11			
12			
13			

## Affiliate Transactions - Products &amp; Services Provided to Utility

Year: 2004

Line No.	Affiliate Name (a)	Products & Services (b)	Method to Determine Price (c)	Charges to Utility (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
1	National Information Systems	Computer Service Bureau (Billing Acctg & Plant Software Maintenance)	Varies	77,793		77,793
2						
3						
4						
5	GVNW	Consultants	Hourly Rate	41,615		41,615
6		(Cost Studies, Separations, Traffic Studies, Etc.)				
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30	<b>TOTAL</b>			\$119,408		\$119,408

## Affiliate Transactions - Products &amp; Services Provided by Utility

Year: 2004

Line No.	Affiliate Name (a)	Products & Services (b)	Method to Determine Price (c)	Charges to Affiliate (d)	% Total Affil. Revenues (e)	Charges to MT Utility (f)
1	NONE					
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30	<b>TOTAL</b>					

\*Note - 2004 info not available until after cost studies completed in July, 2005. This year is 2003 and last year is 2002.

**Montana Intrastate Regulated Earned Rate of Return**

Year: 2004

Line No.	Description Rate Base (a)	This Year (b)	Last Year (c)	Percent Change (d)
1				
2	2001 Plant in Service	2,718,019	2,645,245	2.75%
3	2002 Prop. Held for Future Telecommunications Use	(1,444,982)	(1,335,439)	-8.20%
4	3100-3200 (Less) Accumulated Depreciation			
5	<b>Plant in Service</b>	1,273,037	1,309,806	-2.81%
6				
7	<b>Additions</b>			
8	1220 Materials & Supplies	16,538	15,458	6.99%
9	1280 Prepayments			
10	Other Additions			
11	<b>TOTAL Additions</b>	16,538	15,458	6.99%
12				
13	<b>Deductions</b>			
14	4100 Current Deferred Operating Income Taxes			
15	4320 Unamortized Operating Investment Tax Credits			
16	4340 Noncurrent Deferred Operating Income Taxes			
17	Customer Advances for Construction			
18	Other Deductions			
19	<b>TOTAL Deductions</b>			
20	<b>TOTAL Rate Base</b>	1,289,575	1,325,264	-2.69%
21				
22	<b>Net Earnings</b>			
23				
24	<b>Rate of Return on Average Rate Base</b>	-5.680%	-5.490%	-3.46%
25				
26	<b>Rate of Return on Average Equity</b>	-11.800%	-13.700%	13.87%
27				
28	Major Normalizing Adjustments & Commission			
29	<u>Ratemaking adjustments to Utility Operations</u>			
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42				
43	<b>Adjusted Rate of Return on Average Rate Base</b>			
44				
45	<b>Adjusted Rate of Return on Average Equity</b>			

**Other Taxes Paid**

Year: 2004

Line No.	Description (a)	Last Year (b)	This Year (c)
1	Montana Telephone Company License Tax		1423
2	Montana Public Service Commission Tax		557
3	Montana Consumer Counsel Tax		
4	911 Emergency Telephone Fee		
5	Montana Telecommunications Access Service (TDD)		
6	Montana Corporate License Tax		15
7	Personal Property Tax		
8	Real Property Tax		
9			
10			
11			
12	<b>Total</b>		1995

Company Name: Southern Montana Telephone Company

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**Universal Service Funds Received**

Year: 2004

Line No.	Description (a)	Last Year (b)	This Year (c)
13	Funds received from Montana Sources		
14	Funds received from Federal Sources		284616
15			
16			
17			
18			
19			
20			
21			
22			
23			
24	<b>Total</b>		284616